



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

TechWatch

News at a glance



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TechWatch updates you on technical developments in financial reporting, auditing, ethics, regulation and business. The Institute welcomes your comments, emailed to < commentletters@hkicpa.org.hk >. Click [here](#) for past issues.

Contents

Standard Setting Developments

Meeting Minutes

1. Financial Reporting Standards Committee
2. Hong Kong Insurance Implementation Support Group

Local Updates

3. Meeting with delegation from the International Ethics Standards Board for Accountants
4. Invitations to Comment
5. Institute's submitted Comments

International Updates

6. IFRS Updates

Useful Resources

7. Institute's Technical Resource Centres
8. [LinkedIn](#)

Advocacy and Practice Development/ Member Support

Professional Accountants in Business

9. The Board's Role in Promoting an Ethical Culture

Small and Medium Practitioners

10. IFAC Updated Practical Support and Guidance for Small Business Audits

Corporate Finance

11. SFC Consults on Amendments to Anti-money Laundering and Counter-terrorist Financing Guidelines
12. Amendments to Takeovers Rules
13. HKEX Defers Corporate Weighted Voting Rights Beneficiary Consultation

Corporate Governance

14. HKEX consultation conclusion on Corporate Governance Code and Guidance for Boards and Directors

Taxation

15. Announcements by the Inland Revenue Department ("IRD")
16. Institute's recent tax submissions

Legislation & Other Initiatives

17. Anti-Money Laundering Notices

Useful Resources

18. Other Publications

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Standard Setting Developments

Meeting Minutes

1. Financial Reporting Standards Committee

Summary of the **243rd meeting** of the Financial Reporting Standards Committee is now available.

2. Hong Kong Insurance Implementation Support Group

The Hong Kong Insurance Implementation Support Group's **27 June** meeting summary is now available.

Local Updates

3. Meeting with delegation from the International Ethics Standards Board for Accountants

On 16 July, the Institute hosted a series of outreach meetings with representatives from the International Ethics Standards Board for Accountants (IESBA).

Representatives from the HKICPA Ethics, SMP, PAIB Committees and the investor community exchanged views on public interest topics, including the levels of independence between audit and non-assurance services, and professional skepticism applied by accountants and auditors. The IESBA Revised and Restructured Code, its future strategy and work plan were also discussed.

4. Invitations to Comment

The Institute is seeking comments on:

- IFAC's IAASB Exposure Draft **Proposed International Standard on Auditing (ISA) 315 (Revised), Identifying and Assessing the Risks of Material Misstatement and Proposed Consequential and Conforming Amendments to Other ISAs** by **2 October 2018**

- IASB Discussion Paper **DP/2018/1 Financial Instruments with Characteristics of Equity** by **9 November 2018**

5. Institute's submitted Comments

The Institute commented on the **IESBA Discussion Paper Proposed Strategy and Work Plan 2019-2023** and the European Commission's **Fitness Check on the EU Framework for Public Reporting by Companies**.

International Updates

6. IFRS Updates

- **July IASB Update**
- **Webcasts** on the IASB Discussion Paper *Financial Instruments with Characteristics of Equity*
- **Webcast** on IFRS 9 *Financial Instruments*
- IFRS 17 *Insurance Contracts* educational **materials** on reinsurance contracts held

Useful Resources

7. Institute's Technical Resource Centres

Access the Institute's comprehensive resource centres:

- **New and Major Standards**
- **ICAEW's International Accounting, Audit and Ethics Content**
- **New Companies Ordinance**
- **HKFRS for Private Entities**
- **SMP and SME**

8. **Linked**

Follow our **LinkedIn** for key developments in financial reporting, auditing and ethics.

Advocacy and Practice Development/Member Support

Professional Accountants in Business

9. The Board's Role in Promoting an Ethical Culture

The article entitled [The board's role in promoting an ethical culture](#) examines how the boards can encourage ethical behavior throughout the company by prioritizing corporate culture, watching for red flags, and setting clear expectations. Emphasis is placed on the importance of ethics and best organizational culture which may drive higher average return on assets, as well as the board's involvement in promoting an ethical culture.

The article also provides 10 recommendations that may drive organizational culture.

Small and Medium Practitioners

10. IFAC Updated Practical Support and Guidance for Small Business Audits

Small and medium practitioners ("SMPs") may require practical support when implementing International Standards on Auditing ("ISAs") in audits of small- and medium-sized entities ("SMEs"). International Federations of Accountants ("IFAC") has updated the [Guide to Using ISAs in the Audits of SMEs, Fourth Edition](#) to help SMPs efficiently and proportionally apply ISAs on SME audits.

This Guide reflects recent changes to the ISAs including International Auditing and Assurance Standards Board projects on Auditor Reporting; Disclosures; The Auditor's Responsibilities Relating to Other Information; and Using the Work of Internal Auditors.

[Volume 1 of the Guide](#) covers the fundamental concepts of a risk-based audit in conformance with ISAs, while [Volume 2](#) contains practical guidance on performing SME audits, including two illustrative case studies – an SME audit and a micro-entity audit. SMPs

may use the Guide for training purposes and as the basis for firm manuals.

IFAC has also updated the [Companion Manual](#) to provide practical 'best use' suggestions for the Guide.

Corporate Finance

11. SFC Consults on Amendments to Anti-money Laundering and Counter-terrorist Financing Guidelines

On 5 July, Securities and Futures Commission ("SFC") [launched a consultation](#) on proposals to amend the Guideline on Anti-Money Laundering and Counter-Terrorist Financing to keep it in line with international anti-money laundering and counter-financing of terrorism standards and make it more useful and relevant.

SFC proposes to expand the types of politically exposed persons to include customers who have been entrusted with a prominent function by an international organization. It also proposes to streamline the identification and verification processes for on-boarding customers to allow flexibility for licensed corporations to adopt reasonable risk-based measures and determine the extent to which each individual's identification information would need to be verified.

Licensed corporations may use appropriate technology for non-face-to-face account opening if they can ensure and demonstrate that there are adequate safeguards against impersonation risk.

The deadline for responding to the consultation paper is **9 August 2018**.

12. Amendments to Takeovers Rules

On 13 July, the SFC released [consultation conclusions](#) on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs ("Codes") which are applied with immediate effect.

Measures to enhance investor protection include empowering the Takeovers Panel to require compensation be paid to shareholders who have suffered as a result of a breach of the

Codes and increasing the threshold for independent shareholder approval of a whitewash waiver to 75%. Other changes include amendments to clarify the power of the Takeovers Executive, the Takeovers Panel and the Takeovers Appeal Committee to issue compliance rulings and that persons dealing with them must do so in an open and cooperative manner.

13. HKEX Defers Corporate Weighted Voting Rights Beneficiary Consultation

On 25 July, Hong Kong Exchanges and Clearing ("HKEX") **announced** that it would not launch a consultation on a proposal to allow corporate entities as weighted voting rights ("WVR") beneficiaries in late July as initially planned.

Given that the current WVR regime has only recently been put in place, HKEX believes that it should deliberate further the extended WVR regime and should continue to engage with relevant stakeholders in order to develop a broader consensus on the subject matter.

Corporate Governance

14. HKEX consultation conclusion on Corporate Governance Code and Guidance for Boards and Directors

The HKEX published **Consultation Conclusions** on its Corporate Governance Code and related Listing Rules in relation to board procedures and diversity, roles of INEDs; and transparency on dividend policy on 27 July. The HKEX also published the **Guidance for Boards and Directors** on the same day.

Amendments to the Code and related Listing Rules had been put through to reflect the new measures. With effect from 1 January 2019, the board will need to explain why they consider a candidate could still devote sufficient time to serve the board as an INED when the candidate is holding directorship for more than 6 listed companies. The board is also required to explain in a circular what the nominated INED is expected to bring to the board in terms of skills and experience. Moreover, introduction/ extension of the cooling off periods for professionals or individuals which have had

material interests in the issuer's principal business activities before they can be considered as independent and be qualified as a member of the board is also included in the revised Code and related Listing Rules.

Taxation

15. Announcements by the Inland Revenue Department ("IRD")

Members may wish to be aware of the following matters:

- **Gazettal of**
 - **Inland Revenue (Convention on Mutual Administrative Assistance in Tax Matters) Order**, allowing Hong Kong to effectively implement the automatic exchange of financial account information in tax matters and the Base Erosion and Profit Shifting (BEPS) package promulgated by the Organisation for Economic Co-operation and Development (OECD)
 - **Inland Revenue (Amendment) (No. 6) Ordinance 2018**, primarily implementing the minimum standards of the BEPS package promulgated by the OECD and codifies the transfer pricing principles into the Inland Revenue Ordinance. Click also:
 - ✓ **The key elements and effective dates**
 - ✓ **Advance ruling**
 - ✓ **Advance Pricing Arrangement**
- **FAQ** on Technical Explanations about Automatic Exchange of Financial Account Information
- **Stamp Duty statistics (June 2018)**

16. Institute's recent tax submissions

The Institute's Taxation Faculty has responded to **Inland Revenue (Amendment) (No. 5) Bill 2018** and to the **Proposed Amendment to PRC individual income tax (IIT) law**.

Legislation & Other Initiatives

17. Anti-Money Laundering Notices

Members should note the following notices and publications in relation to AML/CFT:

- **Government notice (extraordinary) 37:**
An updated list of terrorists and terrorist associates has been specified under the United Nations (Anti-Terrorism Measures) Ordinance.
- The **revised Guideline on Exercising Power to Impose Pecuniary Penalty in respect of Anti-Money Laundering and Counter-Terrorist Financing (“GL3A”)** has been published in the Gazette (G.N. 207 of 2018) on 29 June 2018 to reflect the enactment of Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018 and make corresponding amendment to the title of “Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance” mentioned therein to “Anti-Money Laundering and Counter-Terrorist Financing Ordinance” (Cap. 615).
- **High-risk and other monitored jurisdictions:** the FATF’s **process** to identify jurisdictions with significant weaknesses in their anti-money laundering and counter terrorist financing measures and its work with these jurisdictions to address these weaknesses.
- **Specially designated nationals and blocked persons list**, published by the U.S. Treasury’s Office of Foreign Assets Control. More details on the **Resource Centre of the Treasury**.

For mandatory guidance and information on the AML/CFT requirements for members see the Institute’s **"Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants"**.

Useful Resources

18. Other Publications

- (i) HKEX has published:
 - **Guide on product review and approval process for listed structured products**
 - New guidance letters on:
 - Guidance for listing applicants in the internet technology sector or that have internet-based business models (**HKEX-GL97-18**) and relevant **press release**
 - Disclosure in listing documents (**HKEX-GL98-18**)
 - Assessment of a sponsor’s independence (**HKEX-GL99-18**)
 - Updated guidance letters on:
 - Publicity materials and e-IPO advertisements (**HKEX-GL18-10**)
 - Documentary requirements and administrative matters for new listing applications (Equity) (**HKEX-GL55-13**)
 - Disclosure requirements for substantially complete Application Proofs; and publication of Application Proofs and Post Hearing Information Packs (**HKEX-GL56-13**)
 - Mixed Media Offer (**HKEX-GL81-15**)
 - Updated Frequently Asked Questions:
 - **FAQ Series 24** Listing Rule changes to complement the SFC new sponsor regulation effective on 1 October 2013

- **FAQ Series 29** Shanghai and Shenzhen Connect and HKEX chief executive's **responses to media questions** regarding stock connect development
 - **Report** on initial public offering applications, delisting and suspensions as at 31 July
- (ii) SFC has published:
- Takeovers Bulletin **issue no. 45**
 - Findings of the 2017 **Asset and Wealth Management Activities Survey** and the relevant **press release**
- (iii) Companies Registry **releases** statistics for first half of 2018
- (iv) Other publications:
- **Foundation for Economies Worldwide = Small Business** by IFAC
 - **Developing a Technology Strategy** by CPA Australia
 - **How corporate directors can improve cyber readiness** by Financial Management
 - **How to Find Out What Your Clients Really Want** by Boomer Consulting
 - **Succession Plan Top Concern at CPA Firms, as Baby Boomers Retire** by Bloomberg BNA
 - **4 Ways to Create a Learning Culture on Your Team** by Harvard Business Review
 - **Ten red flags signaling your analytics program will fail** by McKinsey Analytics